CORRECTIONS AND PUBLIC SAFETY

CORRECTIONAL FACILITIES INDUSTRIES REVOLVING FUND

FINANCIAL STATEMENTS

For the Year Ended March 31, 2004

Provincial Auditor Saskatchewan

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AUDITOR'S REPORT

To the Members of the Legislative Assembly of Saskatchewan

I have audited the balance sheet of the Correctional Facilities Industries Revolving Fund as at March 31, 2004 and the statements of operations and accumulated operating deficit and changes in accumulated net expenditure for the year then ended. The Fund's management is responsible for preparing these financial statements for Treasury Board approval. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at March 31, 2004 and the results of its operations and the changes in its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Regina, Saskatchewan
June 24, 2004

Fred Wendel, CMA, CA
Provincial Auditor

Statement 1

CORRECTIONAL FACILITIES INDUSTRIES REVOLVING FUND
BALANCE SHEET
AS AT MARCH 31

	2004	2003
ASSETS		
Current assets:		
Accounts receivable	$ 177,466	$ 136,196
Receivable from General Revenue Fund	---	149,102
Inventory (Note 7)	145,954	181,928
	323,420	467,226
Capital assets (Note 5)	---	105,494
	$ 323,420	$ 572,720
LIABILITIES AND FUND EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$ 52,850	$ 39,770
Accumulated net expenditure (Statement 3)	365,884	706,022
Fund equity:		
Accumulated operating deficit (Statement 2)	(95,314)	(173,072)
	$ 323,420	$ 572,720

(See accompanying notes to the financial statements)

CORRECTIONAL FACILITIES INDUSTRIES REVOLVING FUND
STATEMENT OF OPERATIONS
AND ACCUMULATED OPERATING DEFICIT
FOR THE YEAR ENDED MARCH 31

	2004		2003
	Budget (Note 11)	Actual	Actual
Sales	$ 795,000	$ 538,190	$ 676,926
Cost of goods sold (Note 6)	686,113	511,277	664,789
Gross profit	108,887	26,913	12,137
Operating expenses:			
Salaries	202,973	210,503	283,794
Inmate assessment	---	---	12,309
Travel	23,840	5,177	8,686
Miscellaneous	5,900	4,542	6,640
Repairs and maintenance	1,780	2,044	4,963
Amortization	1,468	3,333	598
Office supplies	2,250	1,837	3,060
Bad debts/allowance	3,200	11,965	4,869
Delivery	750	106	180
Returns	1,900	31	1,849
Advertising	---	---	310
	244,061	239,538	327,258
Net (loss) from operations	(135,174)	(212,625)	(315,121)
Other income	---	383	52
Subsidy from General Revenue Fund	142,000	142,000	142,000
Deficit Recovered from General Revenue Fund (Note 4)	49,102	148,000	149,102
Net income (loss)	$ 55,928	$ 77,758	$ (23,967)
Accumulated operating deficit, beginning of year		(173,072)	(149,105)
Accumulated operating deficit, end of year - to Statement 1		$ (95,314)	$ (173,072)

(See accompanying notes to the financial statements)

CORRECTIONAL FACILITIES INDUSTRIES REVOLVING FUND
STATEMENT OF CHANGES IN ACCUMULATED NET EXPENDITURE
FOR THE YEAR ENDED MARCH 31

	2004	2003
Financing (provided by) required for operating activities:		
Net (income) loss	$ (77,758)	$ 23,967
Items not affecting working capital - amortization	(27,791)	(28,842)
Working capital changes related to operations		
(Decrease) increase in accounts receivable	(107,832)	131,746
(Decrease) in inventories	(35,974)	(28,127)
(Increase) in current liabilities	(13,080)	(3,442)
	(262,435)	95,302
Financing (provided by) required for investing activities:		
Purchase of capital assets	22,327	13,013
Net (decrease) increase in financing requirements	(240,108)	108,315
Accumulated net expenditure, beginning of year	706,022	597,707
Transfer of capital assets (Note 5)	(100,030)	----
Accumulated net expenditure, end of year - to Statement 1	$ 365,884	$ 706,022

(See accompanying notes to the financial statements)

CORRECTIONAL FACILITIES INDUSTRIES REVOLVING FUND
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2004

1. Authority and Definition of Entity

The Revolving Fund operates under the authority of Section 53 of *The Correctional Services Act*. The purpose of the Revolving Fund is to rehabilitate inmates by operating work programs intended to provide practical and marketable work skills for inmates and which provides a revenue source to reduce the costs of inmate programming.

2. Significant Accounting Policies

The financial statements are prepared using Canadian generally accepted accounting principles. These financial statements do not present a cash flow statement because the required cash flow information is readily apparent from the Statement of Changes in Accumulated Net Expenditure and Note 8. The following accounting policies are considered significant:

a) Net Financing Requirements

The net financing requirements is the cash flow from/(to) the General Revenue Fund. It represents the total annual financing requirements resulting from net capital acquisitions, working capital changes and net cash flows from operations.

b) Accumulated Net Expenditure

The accumulated net expenditure of the Revolving Fund includes the following:

i) net increase (decrease) in financing requirements for each fiscal year; and

ii) the book value of assets acquired at no charge from or transferred to another government agency.

c) Basis of Accounting

These financial statements are prepared using the accrual basis of accounting.

d) Revenue Recognition

The financial statements recognize revenue from long-term contracts proportionately with the degree of completion of goods under contract.

e) Inventories

Inventories are valued at the lower of cost and net realizable value. Cost is determined by using first in, first out method.

f) Capital Assets

Capital assets are recorded at cost. The cost and related accumulated amortization of items retired or disposed of are removed from the records and any gains or losses are included in the statement of operations.

Amortization is calculated on a straight-line basis at an annual rate of 10% for equipment and leasehold improvements and on a diminishing balance basis at an annual rate of 30% for tools and other assets. Computer equipment is amortized on a straight-line basis over three years.

g) Use of Estimates

The preparation of financial information requires management to make estimates and assumptions that affect reported amounts of assets and liabilities at the date of financial statements and reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

3. Authorized Financing

Subsection 53 (10) of *The Correctional Services Act* specifies that the maximum accumulated net expenditure will be set by order of the Lieutenant Governor in Council. A maximum amount of $900,000 was established by Order in Council 816/89.

4. Disposition of Accumulated Operating Surplus or Deficit

Treasury Board controls the operations of the Revolving Fund, in part by monitoring the amount of its accumulated operating surplus/deficit. If the surplus exceeds or the deficit is less than the limit specified by Treasury Board, management is responsible to present a plan to address the excess surplus/deficit for approval by Treasury Board. Plans may include, but are not limited to, payment of excess surpluses to, or requests for additional funding from, the General Revenue Fund. The limit for the Correctional Facilities Industries Revolving Fund is $100,000 per year.

5. Capital Assets

In January 2004, Treasury Board approved the transfer of the Revolving Fund's capital assets to the Department of Corrections and Public Safety. This transfer occurred on March 31, 2004 at net book value. The assets' cost of $522,299 and accumulated amortization of $422,266 have been reduced to $nil and the accumulated net expenditure has been reduced by the net book value of $100,033. In the future, the Department will provide use of capital assets to the Revolving Fund.

	2004			2003		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Equipment	$ ---	$ ---	$ ---	$ 322,544	$ 244,371	$ 78,173
Tools	---	---	---	62,108	55,848	6,260
Leaseholds	---	---	---	87,965	68,426	19,539
Computer	---	---	---	13,168	12,626	542
Other	---	---	---	14,190	13,210	980
	$ ---	$ ---	$ ---	$ 499,975	$ 394,481	$ 105,494

6. Cost of Goods Sold

Cost of goods sold consists of the following:

	2004	2003
Materials	$ 212,108	$ 315,371
Supplies	13,030	22,226
Small Tools	2,483	2,490
Inmate Labour	---	31,790
Inmate Incentive	44,922	60,204
Amortization	24,458	28,231
Staff Salaries	194,486	171,723
Shop Expense	19,790	32,754
	$ 511,277	$ 664,789

7. Inventory

Inventory consists of the following:

	2004	2003
Raw Materials	$ 115,828	$ 146,651
Work in Process	23,308	24,176
Finished Goods	6,818	11,101
Total	$ 145,954	$ 181,928

8. Amount Reported in the Public Accounts

The net (expenditure) recovery of the Revolving Fund reported in Public Accounts is the net income of the Revolving Fund adjusted for differences in accounting policies and other adjustments between the Revolving Fund and the General Revenue Fund:

	2004	2003
Net (loss) after subsidy and other income	$ (70,242)	$ (173,072)
Deficit recovered from the General Revenue Fund	148,000	149,102
Decrease/(increase) in inventory balance	35,974	28,127
Decrease/(increase) in net capital assets	5,464	15,819
Timing differences in recording receipts and payments	(107)	(26,607)
Net (expenditure) recovery reported in the Public Accounts	$ 119,089	$ (6,631)

9. Related Parties

These financial statements include transactions with related parties. The Revolving Fund is related to all Saskatchewan Crown agencies such as departments, corporations, agencies, boards and commissions under the common control of the Government of Saskatchewan. Also, the Revolving Fund is related to enterprises that the Government jointly controls or significantly influences.

Routine operating transactions with related parties are settled on normal trade terms. These transactions and amounts outstanding at year-end are as follows:

	2004	2003
Revenue	$ 135,440	$ 130,090
Accounts Receivable	$ 49,983	$ 8,610

In addition, the Revolving Fund pays Provincial Sales Tax to the Saskatchewan Department of Finance on all its taxable purchases. Taxes paid are recorded as part of the cost of those purchases.

Other transactions with related parties and amounts due to/from them are described separately in the financial statements and notes thereto.

In accordance with established government policy, the Revolving Fund has not been charged with certain costs including occupancy, financing and certain administrative costs. These costs have been absorbed by the various departmental appropriations and therefore no provision for such costs is reflected in these financial statements.

10. Financial Instruments

The Revolving Fund's financial instruments consist of accounts receivable, accounts payable and accumulated net expenditure.

a) Significant terms and conditions

There are no significant terms and conditions related to the financial instruments that may affect the amount, timing and certainty of future cash flows.

b) Credit risk

The Revolving Fund is exposed to credit risk from the potential non-payment of accounts receivable. Accounts receivable balances are outstanding from many customers, which helps reduce credit risk.

c) Fair value

The carrying amounts approximate fair value due to their immediate or short-term nature. The fair value of the accumulated net expenditure has been omitted because it is not practicable to determine the fair value with sufficient reliability.

11. Budget

These amounts are included in the budget submitted to Treasury Board for approval. Treasury Board approves the Revolving Fund's budget annually.

12. Contingency

The Revolving Fund is a defendant in a legal proceeding. An estimate of losses, if any, cannot be determined at this time. Accordingly no provision has been made in the Revolving Fund's accounts.